



Washingtonville Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2015 – March 17, 2017

2017M-129



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2017

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Washingtonville Central School District, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Washingtonville Central School District (District) is located in the Town of Blooming Grove and includes the Village of Washingtonville and part of the Towns of Cornwall, Hamptonburgh and New Windsor in Orange County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The District operates five schools with an enrollment of approximately 4,060 students.

The District's budgeted appropriations for the fiscal years ending June 30, 2016 and June 30, 2017 were approximately \$86 million and \$87 million, and were funded primarily with local property taxes and State and federal aid.

Objective

The objective of our audit was to examine the District's financial condition. Our audit addressed the following related question:

- Did the Board ensure that fund balance was within statutory limits?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2015 through March 17, 2017. We extended our audit scope period back to July 1, 2012 to evaluate financial trends.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they were taking corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a

(3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Financial Condition

New York State Real Property Tax Law limits the amount of unexpended surplus funds that can be legally retained by the District to no more than 4 percent of the ensuing fiscal year’s budget. Districts may also establish reserves to restrict a portion of fund balance for a specific purpose, but must do so in compliance with statutory directives. Combining a reasonable level of unrestricted fund balance with legally established reserve funds can provide resources for both unanticipated events and other identified or planned needs. Once the Board has addressed those needs, any remaining fund balance, exclusive of the 4 percent allowed to be retained, should be used to fund operations. This is a matter of transparency so that District residents can have accurate information when voting on the budget, and is also a matter of fiscal responsibility.

The Board’s adopted budgets overestimated appropriations in the 2012-13 through 2015-16 fiscal years. As a result, the District had significant operating surpluses which caused the fund balance to exceed the statutory maximum of 4 percent of the ensuing year’s budget. The Board appropriated fund balance that was not needed to fund the budget and brought down fund balance levels to within the statutory limit. In routinely using these practices, the Board and District officials have, in effect, circumvented the 4 percent fund balance limit; may have levied more real property taxes than necessary; and retained large amounts of funds without full disclosure and transparency. District Officials also created unnecessary budget encumbrances.

We compared budget appropriations with actual expenditures and amounts encumbered and found that the Board overestimated appropriations by a combined total of approximately \$6.1 million in these budgets over the audit period with an annual average of \$1.5 million or 2 percent.

Figure 1: Overestimated Appropriations

Fiscal Year	Appropriation	Actual Expenditure + Encumbrances	Overestimated Appropriations
2012-13	\$82,871,520	\$80,259,682	\$2,611,838
2013-14	\$84,370,348	\$83,256,216	\$1,114,132
2014-15	\$85,967,234	\$84,939,972	\$1,027,262
2015-16	\$87,342,651	\$85,949,073	\$1,393,578
Totals	\$340,551,753	\$334,404,943	\$6,146,810

Appropriations that were consistently overestimated included teacher salaries - approximately \$1 million, or 17 percent; special education expenditures (for salaries, tuition, and contractual expenditures) - approximately \$1.7 million, or 27 percent; transportation - \$1.3 million, or 22 percent; and Medicare Part B Reimbursement – \$500,000, or 9 percent. Actual revenues were generally close to budget estimates over the same period.

In addition, during the same period, the Board appropriated fund balance each year to fund operations. Specifically, \$3.5 million in 2012-13 and \$3.6 million in 2013-14, 2014-15 and 2015-16. However, due to operating surpluses in all four years, the appropriated fund balance was not needed or used.

District officials also created unnecessary encumbrances to make it appear that unrestricted fund balance was lower than it actually was. Encumbrances are obligations in the form of unfilled purchase orders or contracts. An appropriation is reserved at the time orders are placed or contracts approved, prior to the actual expenditure of funds. Encumbrances that exist at the end of the fiscal year may be carried over to the next year, but must represent valid commitments for specific future expenditures, and should not be established as a means of artificially reducing available year-end fund balance. District officials encumbered between \$2.6 million and \$3.3 million at the end of each fiscal year, for a total of approximately \$12 million during the period reviewed. However, a total of approximately \$4.2 million was not expended. Encumbrances that are established without a genuine purchase or contractual commitment inflate assigned fund balance and misrepresent the District's budget, which leads to higher tax levy than necessary.

The unused appropriated fund balance and unexpended encumbrances made it appear that the District had complied with the statutory 4 percent unrestricted fund balance limit.

Figure 2: Unrestricted Fund Balance at Year-End				
	2012-13	2013-14	2014-15	2015-16
Total Beginning Fund Balance	\$17,438,034	\$19,649,794	\$20,368,572	\$20,832,174
Prior Period Adjustments to Increase Beginning Fund Balance		\$1	\$5	\$8,550,825
Add: Operating Surplus	\$2,211,760	\$718,765	\$463,597	\$2,181,924
Total Ending Fund Balance	\$19,649,794	\$20,368,572	\$20,832,162	\$31,564,923
Less: Restricted Funds	\$9,988,637	\$9,974,550	\$10,990,984	\$16,420,047
Less: Encumbrances	\$2,746,111	\$3,295,796	\$2,687,481	\$3,093,539
Less: Appropriated Fund Balance for the Ensuing Year	\$3,500,000	\$3,660,000	\$3,660,000	\$3,660,000
Total Unrestricted Funds at Year-End	\$3,415,046	\$3,438,226	\$3,493,709	\$8,391,337
Ensuing Year's Budgeted Appropriations	\$84,370,348	\$85,967,234	\$87,342,651	\$89,401,006
Unrestricted Fund Balance as a Percentage of the Ensuing Year's Budget	4%	4%	4%	9%

However, by not using the appropriated fund balance and by establishing encumbrances in excess of the amounts actually needed, the District's unrestricted funds significantly exceeded the statutory maximum. When the amounts of unused appropriated fund balance and the unexpended encumbrance amounts are added back, the District's recalculated unrestricted fund balance ranged from 9 to 15 percent of the ensuing year's budget.

Figure 3: Recalculated Unrestricted Fund Balance				
	2012-13	2013-14	2014-15	2015-16
Total Unrestricted Fund Balance at Year-End	\$3,415,046	\$3,438,226	\$3,493,709	\$8,391,337
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$3,500,000	\$3,660,000	\$3,660,000	\$3,660,000
Add: Unexpended Encumbrances	\$1,204,917	\$873,977	\$853,592	\$1,335,267
Total Recalculated Unrestricted Fund Balance	\$8,119,963	\$7,972,203	\$8,007,301	\$13,386,604
Ensuing Year's Budget	\$84,370,348	\$85,967,234	\$87,342,651	\$89,401,006
Recalculated Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	10%	9%	9%	15%

Moreover, the District's tax certiorari reserve, which totaled approximately \$1.2 million at the end of the 2015-16 fiscal year, is undeterminable. Most of the reserve is based on old claims, going as far back as 2005 with no evidence of continued proceedings and appear therefore to have been abandoned. Some of the claims have been decided upon by courts or other appropriate entities and either partially granted or totally rejected and should have been removed from the list. The most recent claims are from 2014. Because no information was available for 2015 and 2016 claims, we concluded that an adequate amount of the tax certiorari reserve cannot be determined. Therefore, some of the money in this reserve should actually be included in unrestricted fund balance.

The Assistant Superintendent for Business told us that he had noted that the tax certiorari claims were not up-to-date, but as he has only recently

taken on this position, he has not had an opportunity to update the information.

Recommendations

The Board should:

1. Adopt budgets that represent the District's actual needs and discontinue the practice of adopting budgets that appropriate fund balance that will not be used to fund operations.
2. Develop a plan for the use of the excess fund balance in a manner that benefits the District. Such uses could include, but are not limited to:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes.
3. District officials should ensure that year-end encumbrances are valid.
4. Review and update the list of tax certiorari claims and determine the amount of reserve that is necessary, reasonable and in compliance with statutory requirements. Any excess amount in the reserve should be returned to the general fund.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

WASHINGTONVILLE CENTRAL SCHOOL DISTRICT

52 West Main Street, Washingtonville, New York 10992



ROY REESE, *Superintendent of Schools*
JANET L. SEAMAN, ED.D., *Assistant Superintendent for Curriculum and Instruction*
MICHAEL COGLIANO, ED.D., *Assistant Superintendent for Pupil Personnel Services*
PAUL NIENSTADT, *Assistant Superintendent for Business*
MAUREEN PETERSON, *Director of Personnel and Staff Development*

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New York State Office of State Comptroller
Division of Local Government and School Accountability
Newburgh Regional Office
Tenneh Blamah, Chief Examiner
33 Airport Road, Suite 103
New Windsor, NY 12553

Dear Ms. Blamah,

Thank you for the report on the Financial Condition of the Washingtonville Central School District for the period July 1, 2015-March 17, 2017. We are pleased, but not surprised, that the Comptroller's Office found and recognized our internal controls to be sound and did not find any evidence of fraud, malfeasance, or any other negative financial accounting practices.

The Washingtonville Central School District is committed to providing outstanding educational programs for all students. It is the goal of the District to maintain programs that promote intellectual, cultural, physical and emotional growth for all students in a safe and supportive environment while maintaining fiscal responsibility.

This letter will serve as the response and the corrective action plan.

Recommendations:

1. In regards to your finding that the District does not use all of the appropriated fund balance it budgets, and your recommendation to spend the fund balance, the District does not believe the practice of spending appropriated fund balance is a sound financial practice. We feel that if the appropriated fund balance is used it constitutes an unstable practice of negative spending. The fund balance is consistently monitored and maintained to ensure the District's financial integrity and maximize the benefits to the taxpayers of Washingtonville.

See
Note 1
Page 11

2. It should be noted that at the August 2016, Board of Education Meeting, the Board Of Education passed a resolution appropriating \$3,194,202 from the Unreserved, Unappropriated Fund Balance, increasing the "Transfer to Capital Projects." This transaction will allow for less borrowing for the \$59.9M capital project that is currently underway, thus saving the District money. It also cuts in half the totals in Figure 2 and 3 of the "Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget" and the "Recalculated Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget."

*The Washingtonville Central School District is committed to the intellectual, cultural, physical and emotional growth
Of our children in a safe and supportive environment.*

3. We have reviewed our year end encumbrances and have lowered them for the current year by \$200,000.00 from the previous year. We will continue to monitor this closely with a goal of ensuring that the necessary encumbrances remain open at the end of the year.

4. The District reserves are reviewed by the Board Of Education semi-annually. At the Board of Education meeting on June 12, 2017, the Tax Certiorari Reserve was adjusted from \$1,201,885.51 to \$653,647.12 to ensure the District has the funding necessary for Tax Certioraris in accordance with open claims.

Since there were no improprieties found in your audit, we take exception to the harsh tone of the report. It is easy to evaluate a budget at the end of the budget cycle. It is far harder to estimate a budget with a number of undetermined variables. These variables range from changes in enrollment, particularly as associated with special education, fluctuations in State Aid, unsettled contracts, escalating health costs, budgeting within the tax cap and being able to maintain a favorable bond rating. The strong financial position of the District should allow for continued favorable interest rates for the ongoing capital project that will save the taxpayers money over the 15 year payback of the bonds.

See
Note 2
Page 11

Due to conservative budgeting practices, the Washingtonville Central School District:

- has not been listed as a District in Fiscal Stress by the Comptroller's Office.
- has received a bond rating of AA from Standard and Poors Global Ratings.
- has remained under the 2% tax cap since the inception in 2011.
- has maintained excellent internal controls as evident by this audit.
- has been able to withstand the financial impacts of over \$1M from Hurricanes Irene and Lee.

The District takes pride in developing budgets that allow for the excellent educational opportunities that make Washingtonville an ideal place to learn, while monitoring and evaluating the financial condition of the school district on behalf of the taxpayers of the community.

Respectfully Submitted,



Mr. Roy Reese
Superintendent of Schools



Mr. William Santos
President of the Board of Education

The Washingtonville Central School District is committed to the intellectual, cultural, physical and emotional growth of our children in a safe and supportive environment.

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

If District officials do not believe in the practice of spending appropriated fund balance, then officials should stop the practice of consistently appropriating fund balance to balance the budget. The repeated non-use of appropriated fund balance occurs because budget appropriations are overstated and the budget presented to District residents are considered misleading and not transparent.

Note 2

The District's budgeting practices led to annual budget surpluses. It is important that each individual line item in a budget be estimated as accurately as possible when preparing the budget. By using actual historical data, District officials can help eliminate budget appropriations that are greater than necessary.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and reviewed Board meeting minutes and resolutions and the District's policies to gain an understanding of the process and procedures governing the District's financial management.
- We reviewed the results of operations in the general fund for the 2012-13 through 2015-16 fiscal years.
- We analyzed the fund balance trends, including the use of appropriated fund balance, in the general fund for the 2012-13 through 2015-16 fiscal years. We compared appropriated fund balance to the same year's operating results to determine whether the appropriated fund balance was actually used.
- We obtained the year-end encumbrances as of June 30 of each year, from 2012-13 through 2015-16 and the cash disbursements for July 1, 2013 through March 31, 2017. We compared both reports to determine if purchase orders were paid in full as of March 31, 2017.
- We calculated the unrestricted fund balance in the general fund as a percentage of the ensuing year's appropriations to determine whether the District was within the statutory limitation during the 2012-13 through 2015-16 fiscal years. We adjusted the unrestricted fund balance for the unused appropriated fund balance to determine the District's year-end unrestricted fund balance as a percentage of the next year's budgetary appropriations.
- We compared budgeted revenues and appropriations to actual revenues and expenditures for the general fund for the 2012-13 through 2015-16 fiscal years to determine whether the District's budgets were reasonable.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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